

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 DODE-00 PA-01 PRS-01 AGR-05 OES-03 FEA-01

INT-05 TAR-01 /095 W

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P 012117Z JUL 75

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC PRIORITY 1711

LIMITED OFFICIAL USE BUENOS AIRES 4427

E.O. 11652: N/A

TAGS: EFIN, EGEN, AR

SUBJ: ECONOMY MINISTER RODRIGO ADDRESSES NATION

REF: BA 4388

SUMMARY: LAST NIGHT, JUNE 30, ECONOMY MINISTER CELESTINO RODRIGO DELIVERED HOUR LONG RADIO AND TV SPEECH TO NATION ANALYZING ECONOMIC SITUATION, DETAILING GOVERNMENTS ECONOMIC PROGRAM AND EXPLAINING CANCELLATION OF PARITARIAS. ALL IN ALL, IT WAS EXCELLENT PERFORMANCE RAISING RODRIGOS IMAGE AND GENERALLY INCREASING SUPPORT FOR GOA ECONOMIC POLICIES. END SUMMARY.

2. CURRENT SITUATION: A) TAKING OFFENSIVE BEFORE CGT LABOR LEADERS COULD GIVE OFFICIAL REACTION TO CANCELLATION OF PARITARIAS, ECONOMIC SITUATION SIGNIFICANTLY PINNING MAJOR BLAME ON TWO PREVIOUS PERONIST MINISTERS. B) RODRIGO SAID DESPITE WORLD ECONOMIC CRISIS, ARGENTINA HAS LIVED IN ILLUSORY WORLD OF EXPANDING PROSPERITY. FULL EMPLOYMENT MAINTAINED ONLY VIA REDUCING PRODUCTIVITY AND LIMITED OFFICIAL USE
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CREATION CONSIDERABLE DISGUISED UNEMPLOYMENT. TRYING TO MAINTAIN LOW PRICES TO REDISTRIBUTE INCOME HAS HURT PRODUCTION AND INVESTMENT, LEADING TO SPECULATION AND CONTRABAND. INTERIOR HAS LIVED IN STATE OF DEPENDENCY, VIS A VIS BA, AS RESULT LOW

PRICES AGRICULTURAL AND INDUSTRIAL ITEMS. PUBLIC SECTOR INVESTMENT PROGRAM NEARLY FROZEN FOR LACK OF REAL RESOURCES, AND INABILITY OBTAIN EXTERNAL FINANCING MAKES SITUATION EVEN MORE CRITICAL IN VITAL SECTORS SUCH AS ENERGY. D) RODRIGO SAID PRIVATE INVESTMENT PRACTICALLY NON EXISTENT. MOREOVER, MANY FOREIGN COMPANIES CONSIDERING LEAVING COUNTRY WHEN HE BECAME ECON MIN AND HAVE ASKED FOR CAPITAL REPATRIATION. SEVERAL EXPROPRIATION CASES INITIATED IN PAST STILL PENDING AND GOA MUST NOW PAY COMPENSATION ALTHOUGH LACKING NECESSARY RESOURCES. HE SAID GOA INTENDS PLACE SPECIAL EMPHASIS AND HIGH DEGREE PRAGMATISM IN RESOLVING THESE OUTSTANDING CASES. D) REGARDING EXTERNAL SECTOR, RODRIGO SAID EXCHANGE RATE HAS BEEN UNREALISTIC CAUSING 544 MILLION DOLLAR DEFICIT IN COMMERCIAL BALANCE BETWEEN JUNE 74 - MAY 1975. GROSS RESERVES NOT TOTAL ONLY \$700 MILLION. IN JUNE HE SAID, GOA ONLY ABLE MEET EXTERNAL OBLIGATIONS BY FINANCIAL DESTERTY OF CENTRAL BANK AND SOME EXTERNAL HELP. WHILE WORLD TOURISM IN DECLINE, ARGENTINE TOURISM HAS INCREASED NOTABLY COSTING GOVERNMENT \$500 MILLION OVER LAST 12 MONTHS.

2. ECONOMIC PLAN: A) RODRIGO SAID GOA ECONOMIC PLAN BASED ON REALITY AND REPRESENTED ONLY SOLUTION TO ARGENTINAS DESPERATE ECONOMIC SITUATION. REALISTIC PRICES WOULD BE INITIATED FOR ALL ECONOMIC SECTORS. ONLY LIMITED NUMBER OF KEY CONSUMER ITEMS WOULD BE CONTROLLED. PRICES OTHER ITEMS WOULD BE FREE, ALTHOUGH GOA RESERVED RIGHT TO CONTROL PRODUCTION COSTS, DISTRIBUTION AND COMMERCIAL MARGINS VIA AUDITS OF MAJOR COMPANIES. HE ADDED STATE IS SEEKING IN COLLABORATION WITH LEADING COMPANIES, TO WORK OUT SYSTEM UNDER WHICH KEY CONSUMER ITEMS CAN BE PRICED 25 PERCENT BELOW CURRENT LEVELS. SYSTEM WILL BE MANAGED BY MINISTRY OF SOCIAL WELFARE. PUBLIC SECTOR RATES AND TARIFFS WILL BE ADJUSTED RAPIDLY AND REALISTICALLY, AND KEPT AS HIGH AS POSSIBLE CONSISTENT WITH SOCIAL AND COMMERCIAL REALITIES. PRICES OF AGRICULTURAL PRODUCTS OF INTERIOR WILL BE RAISED TO REALISTIC LEVELS. B) IN EXTERNAL SECTOR, GOA WILL FOLLOW FLEXIBLE EXCHANGE POLICY TO MAINTAIN COUNTRY'S COMPETITIVE POSITION. MULTIPLE RATES, TAXES AND SUBSIDIES WILL BE RETAINED, LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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BUT ADJUSTMENTS WILL OCCURE MORE FREQUENTLY ACCORDING INTERNAL AND EXTERANL PRICE MOVEMENTS. IMPORT CONTROL WILL CEASE TO BE QUANTITATIVE AND INSTEAD WILL BE ACHIEVED VIA PRICE MECHANISM. VARIOUS ECONOMIC AND FINANCIAL MEASURES WILL BE EMPLOYED TO DISCOURAGE TOURISM. EXCHANGE CONTROLS WILL BE CONTINUED AND IMPROVED. THESE REALISTIC EXCHANGE POLICIES, ALONG WITH OTHER MEASURES, WILL PERMIT A FRUITFUL DIALOGUE WITH WORLD FINANCIAL CENTERS. FOR EXAMPLE, LETTER OF INTENT WITH FIRST NATIONAL CITY BANK SIGNED SEVERAL DAYS AGO IS FIRST AGREEMENT WITH PRIVATE FINANCIAL ENTITY SINCE MID-1974. C) GOA ALREADY HAS INITIATED NEW MATURE RELATIONSHIP WITH FOREIGN INVESTMENT AND CAPITAL. IN FUTURE, FOREIGN INVESTMENT WILL BE TREATED

AS NATIONAL INVESTMENT AS LONG AS IT RESPECTS LAW. MAJOR PROJECTS IN PUBLIC SECTOR, ENERGY, MINING AND GENERAL INFRASTRUCTURE IN MOST CASES REQUIRE FOREIGN RESOURCES AND TECHNOLOGY. D) INSTEAD OF SEEKING CONTROL PRICES, GOA WILL SEEK TO PROMOTE PRODUCTIVITY OF ALL ECONOMIC SECTORS INCLUDING LABOR AND CAPITAL. COMPANIES WHICH DO NOT MAINTAIN OR INCREASE PRODUCTIVITY MAY LOSE ACCESS TO DOMESTIC CREDIT AND PARTICIPATION IN FREE PRICE SYSTEM. D) GOA WILL ADOPT AUSTERITY MEASURES FOR PUBLIC SECTOR. EACH MINISTER WILL BE RESPONSIBLE FOR OVERSEEING THEIR IMPLEMENTATION UNDER GENERAL SUPERVISION OF MRS. PERON AND ECON MIN. SINCE STATE SPENDING IS AN IMPORTANT MECHANISM FOR INCOME REDISTRIBUTION, HIGH PRIORITY WILL CONTINUE FOR HOUSING PROGRAM. IN ADDITION CURTAILING EXPENDITURES, GOA PLANS MAJOR EFFORT RAISE NEW REVENUE INCLUDING SUBSTANTIAL TAX REFORMS. NEW OR ADDITIONAL TAXES WILL BE LEVIED ON FUELS AND ENERGY, LUXURY PURCHASES, SALES, EXPECTED PROFITS AND REAL ESTATE. CURRENT PROFIT AND VALUE ADDED TAX WILL BE ELIMINATED. F) IN FINANCIAL SECTOR, ALL MEDIUM AND LONG TERM CREDITS WILL CONTAIN INFLATION ADJUSTMENT CLAUSES. INTEREST RATES ON SAVINGS ACCOUNTS AND SHORT TERM CREDITS WILL BE SUBSTANTIALLY RAISED. SMALL BUSINESSES WILL ENJOY SPECIAL CREDIT FACILITIES. G) CONSUMPTION MUST BE RE-ORIENTED AND CONSUMPTION OF LUXURY ITEMS SHARPLY CUT BACK. STATE WILL WAGE WAR AGAINST ALL ECONOMIC DELINQUENCY. FROM NOW ON, HONESTY AND SINCERITY MUST BE NORMS.

3. CANCELLATION OF PARITARIAS: IN FINAL WORDS, RODRIGO EXPLAINED CANDIDLY THAT ABOVE PLAN JEOPARDIZED BY PARITARIAS WHICH EXCEEDED PRESENT ECONOMIC POSSIBILITIES OF COUNTRY. LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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IF PARITARIAS ALLOWED STAND, RESULT WOULD BE INJUSTICE FOR MANY TRADE UNIONS, BANKRUPTCY OF MANY SMALL COMPANIES, HIGH INCREASES IN FISCAL DEFICIT, SPIRALING INFLATION, AND RECESSION WITH GROWING UNEMPLOYMENT. ON OTHER HAND, WAGES SET BY EXECUTIVE WERE CONSISTENT WITH GENERAL PARAMETERS OF PLAN. RODRIGO EMPHASIZED IMPORTANT ROLE WHICH CGT MUST PLAY IN FUTURE DIALOGUE WITH GOVERNMENT.

4. COMMENT: SPEECH WAS ONE OF MOST IMPORTANT GIVEN THUS FAR BY PERONIST ECON VMIN. IT WAS GOOD ECONOMICS, PUTTING GOVERNMENT'S POLICIES IN MORE REASONABLE LIGHT AND INCREASING RODRIGO'S IMAGE IN PROCESS. MOST IMPORTANT, IT CLEARED CONFUSION AS TO REAL CONTENT AND PURPOSE OF CURRENT GOA ECONOMIC PROGRAM. WE HAVE HEARD SEVERAL FAVORABLE COMMENTS FROM BUSINESS COMMUNITY, A FEW FROM PRESS. IT IS CLEAR RODRIGO HAD FOREIGN AUDIENCE IN MIND AS WELL AS DOMESTIC SINCE SIGNIFICANT PART OF SPEECH DEALT WITH INVESTMENT AND FINANCIAL PROBLEMS. ON THE WHOLE, SPEECH APPEARS TO HAVE BEEN GOOD POLITICS AS WELL. IT MAY HAVE INFLUENCE IN CGT DELIBERATIONS ON WHETHER TO COME TO TERMS OR SEEK COMPROMISE WITH GOVERNMENT. NOTE: WE WILL

FORWARD TO WASHINGTON ENGLISH TRANSLATION OF PORTION OF SPEECH
OUTLINGING CURRENT ECONOMIC PROGRAM.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: SPEECHES, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 01 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BUENOS04427
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: D750228-0418
From: BUENOS AIRES
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197507107/baaaauuz.tel
Line Count: 168
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 16 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 Sep 2003 by MorefiRH>; APPROVED <17 SEP 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: ECON, AR, (RODRIGO, CELESTINO)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006